

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER JUNE 30, 1986**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-631

STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER
JUNE 30, 1986

APRIL 1987



Telephone:
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STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Thomas W. Hayes
Auditor General

April 21, 1987

F-631

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its financial audit report of the State Treasurer's Statement of Security Accountability as of June 30, 1986.

The State Treasurer is responsible for the safekeeping of all securities owned by or pledged to the State, except those securities owned by or pledged to the University of California. The statement of Security Accountability is only intended to provide an accountability of securities held by the State Treasurer for safekeeping. As a result, the valuation of securities presented in the Statement of Security Accountability are values selected for ease of accountability rather than for purposes of valuing securities to cost or market value. For example, all stock certificates are valued at \$1 per share, rather than actual cash or current market value. Therefore, the values presented in the Statement of Security Accountability should not be used to determine the dollar amounts of investments of, or pledged to, the State. We found that the statement presents fairly the security accountability of the State Treasurer as of June 30, 1986.

We conducted this audit to comply with the California Government Code, Section 13299.1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas W. Hayes".
THOMAS W. HAYES
Auditor General

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Thomas W. Hayes
Auditor General

Members of the Joint Legislative Audit Committee
State of California

We have examined the Statement of Security Accountability of the State Treasurer as of June 30, 1986. We made our examination in accordance with generally accepted auditing standards and the California Government Code, Section 13299.1. Our examination included a count of all securities held for safekeeping purposes in the State Treasurer's vault and included such other tests of the accounting records and auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement presents fairly the security accountability of the State Treasurer as of June 30, 1986, in accordance with the basis of accounting described in Note 1.

This report is intended solely for the purpose of complying with the provisions of the California Government Code, Section 13299.1, and is not intended for any other purpose.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in black ink, appearing to read "Curt Davis".

CURT DAVIS, CPA
Deputy Auditor General

Date: February 2, 1987

Staff: Philip Jelicich, CPA, Audit Manager
Jeffrey A. Winston, CPA
Robert Howe

STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY OF THE STATE TREASURER
JUNE 30, 1986

Account Title	Deposits in the State Treasurer's Vault	Deposits With Banks or Trust Companies	Securities in Transit	Total
<u>Pooled Money Investment Account</u> <u>(Note 1)</u>				
Securities (Note 2)	\$ 829,220,046	\$16,291,039,120	\$ 6,000,000	\$17,126,259,166
Agreements to Repurchase Securities (Note 3)			<u>1,102,094,090</u>	<u>1,102,094,090</u>
Total	<u>829,220,046</u>	<u>16,291,039,120</u>	<u>1,108,094,090</u>	<u>18,228,353,256</u>
<u>Investments of Individual</u> <u>State Accounts</u>				
Antioch and Carquinez		3,475,000		3,475,000
California Housing Finance Agency	575,570,034	146,012,590		721,582,624
California National Guard		2,276,000		2,276,000
California Pollution Control		2,224,100		2,224,100
Financing Authority		224,195,800		224,195,800
Central Valley Water District	13,740,663			13,740,663
First Time Home Buyers	675,000	1,300,000		1,975,000
Judges' Retirement System	10,187,033	4,943,059	210,000	15,340,092
Legislators' Retirement System				
Public Employees' Contingency				
Reserve Fund	1,316,000	3,900,000		5,216,000
Public Employees' Retirement System	1,448,097,858	16,977,016,747	15,671,122	18,440,785,727
Special Deposit - Alice Burch	2,040	18,000		20,040
State Compensation Insurance Fund	299,257,385	1,420,269,000	34,037,000	1,753,563,385
State Controller		335,000		335,000
State Lottery Fund		89,490,000		89,490,000
State Teachers' Retirement System	688,545,533	8,394,048,069	15,766,501	9,098,360,103
State Teachers' Tax Sheltered				
Annuities	370,000	1,975,000		2,345,000
Veterans' Debenture Revenue Fund		35,000,000		35,000,000
Volunteer Firefighters Fund		256,082		256,082
Total	<u>3,037,761,546</u>	<u>27,306,734,447</u>	<u>65,684,623</u>	<u>30,410,180,616</u>
<u>Pledges to Secure Bank and</u> <u>Savings and Loan Deposits</u> <u>of the State</u>				
Agency Bank Deposits	18,520,000	67,638,000		86,158,000
State Treasurer				
Demand Deposits	96,584,700	272,672,522		369,257,222
Time Deposits	76,261,237	1,843,116,229		1,919,377,466
Total	<u>191,365,937</u>	<u>2,183,426,751</u>		<u>2,374,792,688</u>

(Statement continued on next page)

Account Title	Deposits in the State Treasurer's Vault	Deposits With Banks or Trust Companies	Securities in Transit	Total
<u>Miscellaneous Pledges</u>				
Banking Department, State	11,825,900	48,995,443		60,821,343
Consumer Affairs, Department of	12,475,050	4,000		12,479,050
Corporations, Department of	4,070,000			4,070,000
	900,000	2,800,000		3,700,000
Corrections, Department of	33,308,172	123,100		33,431,272
Employment Development Department	174,000			174,000
Equalization, Board of	16			16
Franchise Tax Board				
Industrial Relations, Department of	81,400,000			81,400,000
Insurance, Department of	2,408,354,038			2,408,354,038
Real Estate, Department of	2,190,000			2,190,000
State Lands Commission	6,929,537	52,000		6,981,537
Transportation, Department of	32,180,510	1,525,000		33,705,510
Water Resources Control Board	694,968			694,968
Water Resources, Department of	2,860,000			2,860,000
Total	2,597,362,191	53,499,543		2,650,861,734
<u>General Safekeeping</u>				
Alan Gene Whitaker				
Reimbursement Fund	1			1
California Coastal Commission	5,000			5,000
Corrections, Department of		1,071		1,071
Developmental Services,				
Department of	12,128	2,125,000		2,137,128
Education, Department of	61,437	103,000		164,437
Quimby Island Reclamation District	156			156
Rehabilitation, Department of	10,141			10,141
Secretary of State	10,000			10,000
State Controller	12,247,144			12,247,144
State Treasurer				
Bearer bonds exchanged for registered bonds	717,415,000			717,415,000
Trust accounts	98,452,166			98,452,166
Trustees of California State University	3,500	1,390,000		1,393,500
Total	828,216,673	3,619,071		831,835,744
Grand Total	\$7,483,926,393	\$45,838,318,932	\$1,173,778,713	\$54,496,024,038

The accompanying notes are an integral part of this statement.

**NOTES TO THE STATEMENT
OF SECURITY ACCOUNTABILITY OF THE STATE TREASURER**

1. Summary of Significant Accounting Policies

A. Security Accountability

The State Treasurer is responsible for the safekeeping of all securities owned by or pledged to the State except those owned by or pledged to the University of California. The Statement of Security Accountability provides an accountability for securities held by the State Treasurer for safekeeping and includes the following securities:

- Pooled Money Investment Account securities purchased with available cash from all state funds or accounts that do not have investment authority of their own, all or a portion of the available cash from state funds or accounts having investment authority of their own, state deposits that have not been credited to specific funds in the State Treasury, and balances representing outstanding state warrants;
- Individual state accounts;
- Pledges to secure bank and savings and loan deposits of the State of California;
- Miscellaneous pledges to protect consumers, guarantee contractor performance, and ensure payment of state taxes; and
- General safekeeping accounts.

B. Valuation of Securities

The State Treasurer does not report securities at either book or market value in the Statement of Security Accountability. Securities are valued in the Statement of Security Accountability as follows:

Securities Deposited in the State Treasurer's Vault

- Bonds, commercial paper, certificates of deposit, and surety bonds are valued at par value or face value;
- Stock certificates, Government National Mortgage Association certificates, Federal National Mortgage Association certificates, and Federal Home Loan Mortgage Corporation certificates are valued at \$1 per certificate;

- Real estate mortgage notes held as investments of individual state accounts are valued at \$1 per note;
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their outstanding principal balance; and
- Building certificates are valued at their outstanding principal balance.

Securities Deposited With Banks or Trust Companies

- Bonds, commercial paper, certificates of deposit, surety bonds, Federal National Mortgage Association partnership certificates, and Federal Home Loan Mortgage Corporation partnership certificates are valued at par or face value;
- Federal National Mortgage Association certificates (except partnership certificates), Federal Home Loan Mortgage Corporation certificates (except partnership certificates), and Government National Mortgage Association certificates are valued at their original face value;
- Stock certificates are valued at \$1 per share; and
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their outstanding principal balance.

2. Pooled Money Investment Account Securities

The Pooled Money Investment Account securities were valued at \$18,228,353,256 according to the methods described in Note 1B; they were reported at book value of \$16,000,733,779 in an affidavit filed by the Office of the Auditor General on March 27, 1987. The difference results from different methods of valuation.

Cash on hand, demand deposits in banks, cash deposited with fiscal agents, nonnegotiable certificates of deposit with banks and savings and loan associations, and amounts due from banks, all totaling \$1,201,027,379, are not included in the Statement of Security Accountability. The Office of the Auditor General counted these amounts as required by Sections 13297 and 13298 of the California Government Code. These amounts are reported as "money and credit" in the affidavit filed by the Office of the Auditor General on March 27, 1987, as required by Section 13299 of the California Government Code.

3. Pooled Money Investment Account Agreements To Repurchase Securities

Pooled Money Investment Account securities with a total par value of \$1,102,094,090 were transferred by the State Treasurer to other

parties under agreements to reacquire the securities at predetermined dates and prices. During the terms of the agreements, other parties hold the securities, but the State Treasurer retains all risks of ownership.

4. Other Personal Property

In addition to depositing securities, state agencies also deposit other personal property in the State Treasurer's vault. The following schedule lists entities having personal property in the vault as of June 30, 1986.

<u>Entity</u>	<u>Number of Items</u>
Agency Trust Checks Emergency Stock	35,000
California Pollution Control Financing Authority	3
Department of Developmental Services	9
Department of Housing and Community Development	54
Department of Motor Vehicles	906
State Controller	157
State Treasurer	74
Total	<u>36,203</u>

Each item or sealed package of personal property is counted individually. Personal property is excluded from the Statement of Security Accountability because personal property items are not securities.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps

**OFFICE OF THE TREASURER
SACRAMENTO**

April 15, 1987

Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

We have reviewed the draft copy of the report entitled "State of California, Statement of Security Accountability of the State Treasurer, June 30, 1986." Since this report reflects no discrepancies and requires no corrective action on the part of the State Treasurer, we have nothing to add to your findings. Thank you for the opportunity to respond.

Sincerely,

Kenneth R. Cramer
Kenneth R. Cramer
Assistant State Treasurer